

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENT OF INVESTMENT POLICY**  
  
**FOR**  
**ACTIVE INTERNATIONAL EQUITIES – EXTERNALLY MANAGED**

**February 14, 2005**

*This Policy is effective immediately upon adoption and supersedes all previous externally managed active international equities policies.*

**I. PURPOSE**

This document sets forth the investment policy (“the Policy”) for the Externally Managed Active International Equities Program (“the Program”). The design of this Policy ensures that investors, managers, consultants, or other participants selected by the California Public Employees’ Retirement System (“the System”) take prudent and careful action while managing the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling investment risks and capturing returns associated with this segment of the global capital markets.

**II. STRATEGIC OBJECTIVES**

Capturing returns of international equity markets while diversifying risk is the strategic objective for the Program.

The Program shall be managed to accomplish the following:

- A. Diversify the System’s overall Equity Program;
- B. Enhance the expected return of the System’s Equity Program;
- C. Hedge against active member (pre-retirement) liabilities; and
- D. Consider solely the interests of the System’s participants and their beneficiaries in accordance with California State Law.

**III. RESPONSIBILITIES AND DELEGATIONS**

- A. The **System’s Investment Committee** (“the Investment Committee”) is responsible for approving and amending the Policy. The Investment Committee delegates the responsibility for

administering the Program to the Investment Staff through the Delegation of Authority (Delegation Nos. 89-13 and 95-50).

- B. The **System's Investment Staff's** ("the Staff") duties include, but are not limited to, the following:
1. Developing and recommending the Policy to the Investment Committee.
  2. Developing and maintaining a procedures manual, subject to periodic review and updating, outlining Staff operational procedures used in implementing this Policy.
  3. Implementing and adhering to the Policy.
  4. Recommending action concerning outside money management firm(s) ("Managers") retained under contract to implement the Program. The Staff shall make recommendations in accordance with the Manager Monitoring - Externally Managed Policy, regarding changes in the Manager's contractual guidelines, and any other aspect Staff considers pertinent.
  5. Reporting to the Investment Committee, as needed, about the performance of the Program. The Staff shall monitor the implementation of, and compliance with, the Policy. The Staff shall report concerns, problems, material changes, and all violations of Guidelines and Policies immediately and in writing to the Investment Committee. Reports made by the Staff to the Investment Committee shall include explanations of the violations and appropriate recommendations for corrective action.
- C. **Managers** are responsible for all aspects of portfolio management as set forth in each manager's contract with the System and shall fulfill the following duties:
1. Communicate with the Staff, as needed, regarding investment strategy and investment results. The Investment Committee and Staff expect the Managers to monitor, analyze, and evaluate performance relative to the agreed-upon benchmark.
  2. Cooperate fully with the System's Staff, Custodian, and General Pension Consultant concerning requests for information.

- D. The **General Pension Consultant** is responsible for monitoring and evaluating the Managers' performance relative to the benchmark and Policy. The General Pension Consultant shall report to the Investment Committee on a quarterly basis, in accordance with its contract.

#### IV. PERFORMANCE OBJECTIVE

The Active International Equity Program is expected to outperform the benchmark by at least two (2) percentage points annualized throughout a normal market cycle of three-to-five years, net of fees.

#### V. INVESTMENT APPROACHES AND PARAMETERS

##### A. Approaches

1. The Active International Equity Portfolio shall be invested to maximize return, within acceptable risk parameters, through the selection of publicly traded equity securities available in international equity markets.
2. The Program shall be implemented through the retention of external managers. External manager selection shall occur in accordance with Section V.B. of this Policy.

##### B. External Manager Selection

1. The System shall retain managers with recognized expertise in the analysis and selection of international equity securities or approved derivatives. The selected managers shall be registered, or appropriately exempt from registration, with the Securities and Exchange Commission.
2. The System shall select the managers in accordance with the Contract and Procurement Policy.

##### C. Investment Parameters

The Managers shall operate under a set of specific guidelines that outlines their investment philosophies and approaches, representative portfolio characteristics, permissible and restricted securities and procedures, benchmark and performance objectives.

Implementation of this Program shall comply at all times with the applicable System's investment policies including, but not limited to,

the following:

1. Permissible Equity for Emerging Equity Markets policy;
2. Foreign Exchange Guidelines;
3. Statement of Investment Policy for Derivatives - External Money Managers;
4. Proxy Voting Policies;
5. Manager Monitoring – Externally Managed Policy; and
6. Manager-specific Investment Management Guidelines.

## **VI. BENCHMARKS**

The benchmark for this Program utilizes the CalPERS Financial Times Stock Exchange (FTSE) customized indices. The appropriate FTSE index is applied to each manager depending on its investment mandate.

## **VII. GENERAL**

- A. Terms in this policy are defined in a master glossary of terms.
- B. Investors, managers, consultants, or other participants selected by the System shall base all calculations and computations on market value as recorded by the System's Custodian.

## **VIII. GLOSSARY OF TERMS**

The Equities Glossary of Terms is referenced in the System's Master Glossary of Terms.